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C O N F I D E N T I A L STATE 202657

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OFFICIAL INFORMAL

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SUBJECT: OFFICIAL INFORMAL: REGIONAL ECONOMIC POLICY AND
SUMMIT REVIEW -- NOVEMBER 16-21, 2001

CLASSIFIED BY: (U) CLASSIFIED BY WHA/EPSC PAUL HURLEY, REASON 1.5(D).

(U) THIS IS ONE OF A SERIES OF INFORMAL, UNCLEARED
NEWSLETTERS ASSEMBLED BY WHA/EPSC FOR THE USE OF EMBASSY
ECONOMIC SECTIONS. ITEMS ARE DRAWN FROM DAILY ASDARS
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PREPARED BY WHA OFFICERS DURING THE PERIOD NOVEMBER 16-21,
2001.

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 3. (U) GLOBAL FUND INTER-AGENCY MEETING
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UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: JOHN L MILLS
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1. (U) G-20 MEETS IN OTTAWA. -- CANADA CHAIRED THE NOVEMBER 17 OTTAWA MEETING OF G-20 FINANCE MINISTERS THAT ANNOUNCED A COMPREHENSIVE ACTION PLAN OF MULTILATERAL COOPERATION TO DENY TERRORISTS ACCESS TO, OR USE OF, FINANCIAL SYSTEMS. IT EMPHASIZES IMPLEMENTATION BY FEBRUARY 1 OF UNSCR 1373, THE UN CONVENTION FOR THE SUPPRESSION OF THE FINANCING OF TERRORISM, AND THE UN CONVENTION AGAINST TRANSNATIONAL ORGANIZED CRIME. EACH G-20 MEMBER IS TO ENHANCE INTERNATIONAL EXCHANGE OF INFORMATION THROUGH ESTABLISHMENT AND MAINTENANCE OF A FINANCIAL INTELLIGENCE UNIT (FINCEN IS THE U.S. FIU). THE G-20 SESSION DREW FEWER THAN 2,000 DEMONSTRATORS, MOST OF WHOM REMAINED PEACEFUL.

2. (U) OTHER GLOBALIZATION MEETINGS IN OTTAWA. -- THE IMF, S INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE (IMFC) AND THE JOINT IMF/WORLD BANK DEVELOPMENT COMMITTEE (DC) MET NOVEMBER 17 AND 18 IN OTTAWA, WHERE G-20 FINANCE MINISTERS ALSO MET. NOTING WEAKENING GLOBAL DEMAND, REDUCED CAPITAL FLOWS AND HIGHER RISK AVERSION IN FINANCIAL MARKETS, DECREASED TOURISM AND LOWER, MORE VOLATILE COMMODITY PRICES, THE IMFC COMMITTED THE FUND TO PROVIDING ADDITIONAL FINANCIAL ASSISTANCE, WHERE NEEDED, BUT POINTED OUT THAT SOUND AND PROACTIVE POLICIES IN THE AFFECTED COUNTRIES REMAIN PARAMOUNT. IT URGED ALL IMF MEMBER COUNTRIES TO RATIFY AND IMPLEMENT THE UN INSTRUMENTS TO COUNTER TERRORISM, PARTICULARLY UNSC RESOLUTION 1371, AND ENDORSED THE SPECIAL RECOMMENDATIONS OF THE RECENT WASHINGTON PLENARY OF THE FINANCIAL ACTION TASK FORCE. THE IMF, ITSELF, WILL UNDERTAKE SPECIAL EFFORTS TO HELP COUNTRIES STRENGTHEN THEIR FINANCIAL SYSTEMS AGAINST ABUSES. THE DEVELOPMENT COMMITTEE DETERMINED THAT FINANCIAL ASSISTANCE SHOULD CONTINUE TO BE LINKED TO

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STRONG COUNTRY PERFORMANCE AND REFORM PROGRAMS SUPPORTING POVERTY REDUCTION. IMPROVED GOVERNANCE, IN PARTICULAR, WAS SINGLED OUT AS AN IMPORTANT ELEMENT TO CREATING CONDITIONS FOR INVESTMENT. ON DEBT RELIEF, THE DC RECOGNIZED A NEED TO UPDATE DEBT SUSTAINABILITY ANALYSIS AT THE COMPLETION POINT FOR DEBT RELIEF. CURRENTLY THREE COUNTRIES HAVE REACHED THE COMPLETION POINT (INCLUDING BOLIVIA) AND 21 OTHERS (INCLUDING GUYANA, HONDURAS AND NICARAGUA) HAVE PASSED THE DECISION POINT. DESPITE U.S. RESISTANCE, THE DC EMPHASIZED THAT THE HIPC FRAMEWORK PROVIDES FOR ADDITIONAL ASSISTANCE AT THE COMPLETION POINT IF THERE HAS BEEN A FUNDAMENTAL CHANGE IN ECONOMIC CIRCUMSTANCES DUE TO EXOGENOUS SHOCKS. BOTH THE IMFC AND DC ALSO APPLAUDED THE DOHA LAUNCH OF A NEW MULTILATERAL TRADE ROUND.

3. (U) GLOBAL FUND INTER-AGENCY MEETING. -- EPSC

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PARTICIPATED IN AN INTER-AGENCY MEETING ON THE GLOBAL FUND TO FIGHT HIV/AIDS, TB AND MALARIA. THE NEW OES DAS FOR SCIENCE AND HEALTH, JACK CHOW, HELD A DISCUSSION ON THE USG POSITION ON THE GLOBAL FUND FRAMEWORK, THE KEY ELEMENTS OF WHICH INCLUDE: GOVERNING STRUCTURE, ELIGIBILITY, GRANT SELECTION AND ACCOUNTABILITY; COUNTRY PROCESSES; FIDUCIARY AGENT, AND LEGAL STATUS. THE PURPOSE OF THE MEETING WAS TO COLLECT INPUT FOR CHOW'S INITIAL NEGOTIATIONS IN BRUSSELS THIS WEEK. A REPRESENTATIVE FROM THE NATIONAL INSTITUTES OF HEALTH (NIH) PRESENTED THE NIH GRANT REVIEW PROCESS. CHOW ALSO REQUESTED A PAPER FROM EPSC DETAILING EXAMPLES OF GRANT SELECTION PROCEDURES FROM OTHER INSTITUTIONS.

4. (U) U.S. RECOVERY COULD BE ON THE HORIZON. IS THE REGION FAR BEHIND? -- A FALL IN THE NUMBER OF NEW U.S. JOBLESS
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CLAIMS FOR A FOURTH STRAIGHT WEEK IS BUT THE LATEST IN A SERIES OF INDICATIONS THAT THE U.S. SLOWDOWN/RECESSION COULD BE BOTTOMING OUT, AND THAT RECOVERY MIGHT BE ON THE HORIZON EARLIER THAN PREVIOUSLY ANTICIPATED NEXT YEAR. THE LABOR DEPARTMENT REPORTED NOVEMBER 21 THAT FIRST-TIME JOBLESS CLAIMS DECREASED TO 427,000 IN THE WEEK ENDING 11/17, DOWN FROM 442,000 A WEEK EARLIER, CONSTITUTING THE FOURTH CONSECUTIVE WEEKLY DROP. ALSO, THE UNIVERSITY OF MICHIGAN'S CONSUMER SENTIMENT INDEX ROSE FROM 82.7 TO 83.9 THIS MONTH, THE HIGHEST IN THREE MONTHS. THESE INDICATORS COME ON TOP OF SEVERAL WEEKS OF RISING U.S. STOCK MARKETS. THE S&P 500 INDEX HAS CLIMBED BACK OUT OF BEAR TERRITORY, AND WAS SOME 20 PERCENT HIGHER THAN ITS POST-9/11 LOW POINT AS OF THE CLOSE OF TRADING ON 11/21. TOGETHER THESE SIGNS POINT TO A POTENTIALLY SHALLOWER U.S. RECESSION, AND HENCE A QUICKER ECONOMIC REBOUND THAN MANY PREDICTED IN THE WAKE OF THE 9/11 TRAGEDIES. (ONE CAVEAT: THIS GENERALLY ASSUMES NO MAJOR SETBACKS IN THE WAR ON TERRORISM). A U.S. UPTURN IN MID-2002 WOULD QUICKLY PULL CANADA AND MEXICO WITH IT, WITH THE CARIBBEAN AND OTHER COUNTRIES IN THE REGION NOT TOO FAR BEHIND.

ANDEAN

5. (C) BOLIVIA: A BUYER FOR LLOYD AREO BOLIVIANO. --

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6. (SBU) BOLIVIA: LNG PROJECT ADVANCES, BUT NO WAY OUT YET.

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7. (U) VENEZUELA: CHAVEZ SIGNS NEW LAWS, INCLUDING CONTROVERSIAL HYDROCARBONS LAW. -- SINCE THE NATIONAL ASSEMBLY GRANTED HIM EXECUTIVE POWER TO PROMULGATE LEGISLATION IN SPECIFIC AREAS WITHOUT CONGRESSIONAL APPROVAL, PRESIDENT CHAVEZ HAS ENACTED 49 LAWS. SUCH ENABLING LEGISLATION IS NOT NEW IN VENEZUELA; THE PRACTICE OF GIVING POWER TO THE EXECUTIVE PRE-DATES CHAVEZ. SHORTLY BEFORE EXPIRATION OF THE CURRENT ENABLING LAW EXPIRED ON NOVEMBER 14, CHAVEZ DECREED A HYDROCARBONS LAW AND A LAND LAW, WHICH WERE PUBLISHED IN THE OFFICIAL GAZETTE ON NOVEMBER 13. ONE OF THE MOST CONTROVERSIAL PROVISIONS OF THE HYDROCARBONS LAW IS A REQUIREMENT FOR STATE CONTROL OF ALL UPSTREAM AND

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MIDSTREAM ACTIVITIES THROUGH CORPORATIONS IN WHICH THE STATE HAS AN EQUITY POSITION OF 50% OR MORE. ANALYSTS WARN THAT THIS PROVISION WILL CONSTRAIN FUTURE INVESTMENT IN THE OIL SECTOR. THE HYDROCARBONS LAW ALSO INCREASES ROYALTY RATES TO 30%, ALTHOUGH SOME, MINIMAL FLEXIBILITY HAS BEEN ADDED TO ACCOMMODATE THE SPECIAL CIRCUMSTANCES OF MATURE AND EXTRA HEAVY CRUDE FIELDS AND OTHER HIGH-COST PROJECTS. IN THE LAND LAW, ONE OF THE MOST CONTROVERSIAL PROVISIONS IS THE STATE'S RIGHT TO EXPROPRIATE LAND FOR SPECIAL PROJECTS, FOR ECOLOGICAL REASONS, OR FOR USE BY SEGMENTS OF THE POPULATION READY TO DO AGRICULTURAL WORK BUT LACKING LAND.

8. (C) VENEZUELA: NATIONAL WORK STOPPAGE TO PROTEST CHAVEZ,S APPROVAL OF 49 LAWS. FEDERATION OF CHAMBERS OF COMMERCE (FEDECAMARAS) PRESIDENT PEDRO CARMONA, SHORTLY AFTER MEETING WITH CONFEDERATION OF WORKERS (CTV) PRESIDENT CARLOS ORTEGA, DECIDED TO CONVOKE A GENERAL ASSEMBLY OF FEDECAMARAS,S MEMBERS ON NOVEMBER 28 TO &FORMALIZE8 ITS DECISION TO CALL FOR A GENERAL STRIKE ON DECEMBER 10. THE LONE DISSENTING VOICE WITHIN FEDECAMARAS WAS INDUSTRY FEDERATION (FEDINDUSTRIA) PRESIDENT MIGUEL ANGEL PEREZ WHO ASSERTED, &WE DO NOT AGREE WITH CLOSING LINES OF COMMUNICATION (WITH THE GOVERNMENT).8 THE OBJECTIVE OF THIS GENERAL STRIKE WOULD BE TO PROTEST CHAVEZ,S APPROVAL BY DECREE OF 49 LAWS UNDER AUTHORITY GRANTED THE PRESIDENT BY THE ENABLING LAW THAT EXPIRED NOVEMBER 14. UNCHARACTERISTICALLY TAKING A HARD LINE ON NOVEMBER 14, CARMONA ATTACKED PRESIDENT CHAVEZ,S FAILURE TO CONSULT WITH PRIVATE INDUSTRY BEFORE ENACTING THESE LAWS. CARMONA SINGLED OUT THE HYDROCARBON LAW AND THE LAND REFORM FOR CRITICISM. CARMONA WARNED, &SOME OF THESE LAWS COULD HAVE SERIOUS CONSEQUENCES FOR INVESTMENT, ECONOMIC

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DEVELOPMENT, AND EMPLOYMENT, AND MAY BRING MORE POVERTY TO
VENEZUELA.

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9. (U) ANDEAN TRADE BILL PASSES IN THE HOUSE BY VOICE VOTE.
-- THE HOUSE PASSED AN ANDEAN TRADE PROMOTION AND DRUG
ERADICATION ACT (H.R. 3009) BY SIMPLE VOICE VOTE NOVEMBER 16.
EARLIER, 195 REPUBLICANS AND 55 DEMOCRATS HAD INDICATED
SUPPORT FOR HR 3009 BY VOTING AGAINST A MOTION TO SEND THE
BILL BACK TO COMMITTEE. THIS 250 TO 166 MAJORITY (19
REPUBLICANS AND 147 DEMOCRATS SUPPORTED THE MOTION) MADE A
ROLL CALL VOTE ON THE ANDEAN TRADE BILL ITSELF UNNECESSARY.

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NAFTA COUNTRIES

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10. (U) MEXICO: FISCAL REFORM PROSPECTS DIM. -- THE
POLITICAL TEMPERATURE IS RISING AS FOX'S FISCAL REFORM
PROPOSAL LANGUISHES, NOW SURE TO BE TIED UP IN THE YEAR-END
BUDGET DEBATE. BUSINESS LEADERS AND FINANCIAL FIRMS, WHO HAD
ASSUMED THAT FISCAL REFORM WOULD BE ENACTED THIS YEAR, ARE
NOW WARNING THAT IT MIGHT NOT HAPPEN. FOX HAS REITERATED THE
HIGH STAKES FOR THE COUNTRY, AND CONTENDS THAT A CONSENSUS IS
IN THE MAKING; HOWEVER, PARTY LEADERS IN CONGRESS DISAGREE
AND PUBLIC CRITICISM OF FOX IS MOUNTING. MEANWHILE, GOM
OFFICIALS HAVE PREPARED TWO ALTERNATE BUDGETS: ONE WITH
FISCAL REFORM, THE OTHER WITHOUT.

11. (U) MEXICO: ZERO PROGRESS ON TELECOM ISSUES. -- THE GOM

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HAS TAKEN NO ACTION IN THE LAST SIX MONTHS TO REGULATE TELMEX OR ENSURE COMPETITION IN ITS TELECOMMUNICATIONS SECTOR. LAST YEAR, S WTO-COMPLIANCE ISSUES REMAIN UNRESOLVED; THE GOM HAS NOT ANSWERED ITS MAIL FROM USTR ZOELLICK. MEXICAN OFFICIALS, INSTEAD, ARE FOCUSED ON DRAFTING A NEW TELECOMMUNICATIONS LAW, EVEN THOUGH INDUSTRY REPS ARE URGING THE MEXICAN GOVERNMENT TO TAKE ACTION NOW USING THE TOOLS CURRENTLY AVAILABLE TO LIMIT THE HARMFUL EFFECTS OF TELMEX, S MARKET DOMINANCE.

CENTRAL AMERICA AND CARIBBEAN

12. (U) CUBA: FOOD & MEDICINE. -- U.S. EXPORTERS ARE PRESSING FOR LEGISLATION TO LIFT TEMPORARILY FINANCING AND
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SHIPPING RESTRICTIONS ON CUBA'S PURCHASES OF FOOD AND MEDICINE IN THE UNITED STATES. ONE HILL SOURCE SUGGESTED THAT A NINE-MONTH SUSPENSION WOULD BE APPROPRIATE. INDUSTRY SPOKESMEN ENTHUSIASTICALLY SUPPORTED THE OPENING WHILE LEADING CUBAN-AMERICAN GROUPS WERE SKEPTICAL. CANF SEES THIS AS A TACTICAL MANEUVER BY THE GOC TO UNDERMINE THE EMBARGO, ACCORDING TO PRESS REPORTS.

13. (U) CUBA: AGRIBUSINESSES TO SELL FOOD. -- CARGILL, ARCHER DANIELS MIDLAND (ADM), SOUFFLET AND RICELAND ALL SAY THEY HAVE SIGNED AGREEMENTS WITH CUBA FOR THE SALE OF U.S. AGRICULTURAL COMMODITIES, ACCORDING TO THE PRESS. CARGILL ANNOUNCED SALES OF 20,000 TONS OF WHEAT, 19,000 TONS OF CORN AND 5,000 TONS OF CRUDE VEGETABLE OIL FOR JANUARY/FEBRUARY SHIPMENT. ADM ANNOUNCED SALES OF 20,000 TONS OF HARD RED WINTER WHEAT FOR CASH (\$2.5 MILLION) FOR SHIPMENT IN THE NEXT WEEK TO 10 DAYS. FRENCH COMMODITY TRADING FIRM SOUFFLET REPORTED A SALE OF 20, 000 TONS OF U.S. HARD RED WINTER WHEAT.

14. (SBU) THE BAHAMAS: LAW FIRM COMPLAINS ABOUT FOURTH TERRORISM FREEZE LISTING. [REDACTED]

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15. (U) GUATEMALA: SODA STAMP TAX ALTERNATIVE LOOKS PROMISING.

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16. (C) PANAMA:

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17. (U) COSTA RICA: TRIPS/IPR POLICY IN WAKE OF ANTHRAX
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ATTACKS. -- USING GUIDANCE MATERIAL, SAN JOSE PAO SUBMITTED AN OP-ED PIECE TO COSTA RICA'S LEADING LA NACION NEWSPAPER TO REFUTE ALLEGATIONS MADE IN AN EARLIER EDITORIAL THAT THE U.S. HAD CHANGED IT'S POSITION REGARDING WTO/TRIPS IPR OBLIGATIONS. THE EDITORIAL, UNDER THE HEADING "U.S. HAS NOT CHANGED ITS POSITION ON IPR," RECEIVED PROMINENT PLACEMENT AND POINTED OUT NOT ONLY THAT THE U.S. POSITION HAD NOT CHANGED, BUT ALSO THAT THE ANTHRAX EPISODE DEMONSTRATED THAT THE TRIPS AGREEMENT PROVIDES THE FLEXIBILITY NECESSARY TO DEAL WITH SERIOUS EPIDEMICS AND OTHER SPECIAL CIRCUMSTANCES.

BRAZIL AND SOUTHERN CONE

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18. (SBU) ARGENTINA: READY FOR BILATERAL MECHANISM. -- THE

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19. (C) ARGENTINA: CONTINUING SAGA.

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21. (SBU) BRAZIL: RAYTHEON/SIVAM AND LATE PAYMENTS: --

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